

Operational Impacts of HERA of 2005

Topic	HEA Section	Summary	Effective date – Trigger date	Primarily Affects	Operational Impacts
Consolidation Loans - Repeal of In-School Consolidation	428(b)(7)(A)	Eliminates the borrower's option to enter repayment early. Repayment period will begin after the end of the 6-month grace period. A conforming change is made in the eligibility requirements for a Consolidation loan, section 428C(a)(3)(A)(ii)(I).	7/1/2006 – Applications received on or after 7/1/2006	Institutions and Borrowers	No impact to systems. The consolidating lender will need to revisit their procedures to determine if operational procedures need to be modified. The consolidation lender will manually verify the borrower's eligibility to consolidate loans upon receiving an application from the borrower.
Consolidation Loans - Cross-consolidation between programs	428C(a)(3)(B)(i) and 428C(b)(5)	Terminates borrower eligibility for a new Consolidation loan if borrower already obtained a FFELP or Direct Consolidation loan (eliminates reconsolidation into other program).	7/1/2006 – Application received on or after 7/1/2006	Institutions and Borrowers	No impact to systems. Guarantors and lenders will need to revisit their current policies and procedures to determine if operational processes need to be modified.
Consolidation Loans - Spousal consolidation	428C(a)(3)	Eliminates "spousal consolidation" loans.	7/1/2006 Applications received on or after 7/1/2006	Institutions and Borrowers	Coding will need to be turned off to accept spousal consolidation loans. Consolidating lenders will need to update their procedures to indicate that spousal consolidations are no longer eligible.
Direct Loan repayment plans	455(d)(1)	Repayment schedules offered through FFELP and Direct Loan program be the same. However, Direct Loan will continue to offer income contingent while FFELP will continue to offer income-sensitive repayment plans.	7/1/06 - Borrowers that enter repayment on or after 7/1/06	Institutions and Borrowers	Direct Loan will make modifications to its servicing system for the standard repayment plan, the graduated repayment plan, and for new borrowers on or after 10/7/98, with \$30,000 in outstanding loans, an extended repayment plan, with a fixed annual or graduated repayment amount paid over a period not to exceed 25 years.

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Disbursement	428(b)(1)(N)	Revises the provisions dealing with disbursements to students enrolled in study abroad programs and foreign schools. Loans may be disbursed directly to the borrower only if the institution requests this method. The lender or guaranty agency may honor the institutions request for a direct disbursement to the borrower only after verifying the borrower's enrollment at the institution.	7/1/2006 – Loans first disbursed on or after 7/1/2006	Institutions and Borrowers	Guarantors and lenders will need to revisit their procedures for delivering disbursements to foreign schools and modify as necessary.
Disbursement Rules	428G(e)	Loans to students attending foreign schools are no longer exempt from the disbursement requirements of this section (i.e., multiple disbursement and delayed delivery).	7/1/2006 – Loans first disbursed on or after 7/1/2006	Institutions and Borrowers	Guarantors and lenders will need to modify profiles for foreign schools to reflect multiple disbursements if the school does not qualify for single disbursements.
Disbursement Rules	428G(a)(3)	Reinstates the provision, previously in law, for low-cohort default rate schools (less than 10% for the three most recent fiscal years) that allows for the disbursement of loan funds in a single installment for a single period of enrollment that is not longer than 4 months.	2/8/2006 - Disbursements made on or after 2/8/06	Schools and lenders	If schools are eligible to process single disbursements and have not already contacted their lender and guarantor partners they will need to contact them to learn if profile changes need to be made to allow single disbursements to be made to their school.
Disbursement Rules	428G(b)(1)	Reinstates the provision, previously in law, for low-cohort default rate schools (less than 10% for the three most recent fiscal years) that allows such schools to waive the 30-day delayed delivery of funds to first-time borrowers who are first-year students.	2/8/2006 - Disbursements made on or after 2/8/06	Schools and lenders	No system impacts. It is the responsibility of the school to identify first-time borrowers and determine eligibility for delivery. Schools may need to revisit their in-house procedures regarding scheduling disbursements and delivering aid.

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False Certification Discharges	437(c)(1)	A new type of false certification discharge has been created authorizing discharge if the borrower's loan was falsely certified as a result of identity theft.	7/1/06 - Evidence submitted on or after. However, discharge regulations are still being developed.	Institutions and Borrowers	Until the discharge regulations can be developed, lenders may provide administrative forbearance, and guaranty agencies may suspend default collections, if a borrower presents evidence, on or after July 1, 2006, that the lender or guaranty agency believes to be reasonably persuasive.
PLUS Interest Rates	427A(1)(2)	FFELP PLUS loans will be set at a 8.5%. Direct PLUS loans will be set at a fixed interest rate of 7.9%.	7/1/2006 – loans first disbursed on or after 7/1/2006	Institutions and Borrowers	Systems will need to be programmed to reflect the correct interest rates. Loans first disbursed prior to July 1, 2006 will continue to accrue interest at a variable rate for the life of the loan. Loan disbursements made prior to July 1, cancelled, and reissued after July 1 will have a variable interest rate. Loan disbursements scheduled for disbursement prior to July 1, cancelled, and reinstated after July 1 for disbursement will have a fixed interest rate.
Stafford Interest Rates	427 A(1)	Stafford loan interest rates will be set at a 6.8% fixed rate from current variable with a cap of 8.25%	7/1/2006 - Loans first disbursed on or after 7/1/2006	Institutions and Borrowers	This provision applies to both Direct and FFEL Program loans. Systems will need to be programmed to reflect the correct interest rates. Loans first disbursed prior to 7/1/06 will continue to accrue interest at a variable rate. Loan disbursements made prior to July 1, cancelled, and reissued after July 1 will have a variable interest rate. Loan disbursements scheduled for disbursement prior to July 1, cancelled, and reinstated after July 1 for disbursement will have a fixed interest rate.
Loan Limits - Annual Undergraduate Subsidized Stafford Loan Limits	425 (a)(1)(A) and 428 (b)(1)(A)	Increases annual Stafford loan limits for first-year students from \$2,625 to \$3,500, and for second-year students from \$3,500 to \$4,500	7/1/2007 loans certified or originated on or after 7/1/07	Institutions and Borrowers	Systems will need to be programmed to accept the increased eligibility amounts.

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Loan Limits - Annual Undergraduate Unsubsidized Stafford Loan Limits	428H(d)(2)(c) and (D)	Increases the annual unsubsidized loan limits for graduate or professional students from \$10,000 to \$12,000. Increase the amount of unsubsidized Stafford loan funds available to students with an undergraduate degree who are enrolled in courses needed for professional credential or certification from a state required for employment as a teacher in an elementary or secondary school, the additional unsubsidized loan limited has been increased from \$5,000 to \$7,000.	7/1/2007 loans certified or originated on or after 7/1/07	Institutions and Borrowers	Beginning in AY 2007-08, systems will need to be programmed to accept the increased eligibility amounts.
Military Deferment	428(b)(1)(M)(ii)	Allows for up to 3 years of deferment for eligible borrowers on active duty during war, national emergency or military operation. Includes National Guard duty under same circumstances.	7/1/2006 – Loans first disbursed on or after 7/1/2001	Institutions and Borrowers	Lenders will need to program their systems to reflect the deferment eligibility.
PLUS Loans	428B	Expands PLUS loan eligibility to include graduate and professional students. Current PLUS eligibility requirements (e.g., credit worthiness) still apply.	7/1/2006 – Loans certified on or after 7/1/2006	Institutions and Borrowers	The loan type code for CommonLine is GB. If schools and lenders are not able to send and accept CommonLine 4 files with this new loan type on July 1, 2006, they will need to work with guarantor to discuss a workaround. FFELP loans on NSLDS will also reflect the GB loan type.

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Rehabilitation of Defaulted Loans	428F(a)	A defaulted borrower may rehabilitate their student loans if 9 monthly, consecutive, on-time voluntary payments are received within 20 days of the due date and in a 10 month time frame.	7/1/06 - All rehabilitation agreements beginning on or after 7/1/06, rehabilitation agreements that began prior to July 1, 2006 at least one payment is made (within 20 days of the due date) on or after July 1, 2006.	Institutions and Borrowers	Guarantors will need to program their systems to reflect the new rehabilitation rules. Guarantors will work with lenders regarding the repurchase of defaulted loans.
School Lenders in FFEL Program	435(d)(2)	Schools' ability to be school as lender (SAL) in FFELP has been limited. Stafford disbursements can only be made to graduate/professional students. School/SAL may not award or disburse PLUS loans or make Consolidation loans using the SAL lender code.	4/1/06 - Schools must have met requirements for School as Lender on or before 4/1/06	Institutions and Borrowers	Schools will need to revisit their in-house procedures to indicate that Stafford loans can only be made to graduate/professional students. Lenders and guarantors will modify their system to not accept PLUS and Consolidation loans from these SAL lender codes.
Teacher Loan Forgiveness	428J(g)	Expands borrower eligibility for teacher loan forgiveness to individuals who are employed as teachers in private schools who take and pass a competency test of subject knowledge and skills. The competency test must be recognized by five or more States for the purpose of fulfilling the highly qualified teacher requirements under the No Child Left Behind Act of 2001, and that the score achieved by a teacher on each test equal or exceed the average passing score of those five states.	7/1/2006 – Teacher Loan Forgiveness applications received on or after 7/1/2006	Institutions and Borrowers	Lenders and guarantors will need to revisit their procedures and modify them to incorporate this eligibility when reviewing Teacher Loan Forgiveness applications.

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Teacher Loan Forgiveness	460	Eliminates the previous termination date of October 1, 2005 included in the Taxpayer-Teacher Protection Act of 2004 [Sect. 3(b)(3)] that provides the increased forgiveness amounts for math, science, and special education teachers if the borrower is a new borrower on or after 10/1/98.	7/1/2006 - Applications received on or after 7/1/06	Institutions and Borrowers	Lenders and guarantors will need to revisit their procedures and modify them to incorporate this eligibility when reviewing Teacher Loan Forgiveness applications.
Account Maintenance Fees	458	Fiscal years 2007 through 2011, AMF amounts shall be paid quarterly and will not exceed a tenth of a percent (.10 %) of the original principal amount of outstanding loans.	10/1/06 - quarter beginning 10/1/06	Guaranty Agencies	Guaranty agencies will receive AMF payment quarterly instead of annually.
Administrative Wage Garnishment	488A(a)(1)	A guarantor may garnish up to 15 percent of a defaulted borrower's disposable income.	7/1/06 - all garnishments that occur on or after 7/1/06	Lenders and Guaranty Agencies	Guarantors will need to program their systems to request from the employer 15% of the borrower's disposable income instead of the current 10%. Guarantors will also need to adhere to disclosure requirements to defaulted borrowers.
College Access Initiative	485D	Each guaranty agency must develop and implement a plan to gather postsecondary information to be available to the public.	7/1/2006	Lenders and Guaranty Agencies	Guarantors will need to evaluate the information that they provide to the public to determine if this regulation is being met. NCHELP is meeting with the Department of Ed on April 18 to review existing guarantor efforts and determine if additional activities must be implemented.
Default Collections	428(c)	Guaranty agencies must remit 8.5% of collection costs to the Secretary and retain 10% for defaulted loans paid in full through consolidation.	10/1/2006	Lenders and Guaranty Agencies	Guarantors will need to program their systems to charge 18.5% collection costs on defaulted loans paid in full through Consolidation and remit 8.5% of the collection costs to the Secretary.
Escrow Agent – Transfer of Funds	428(i)(1)	Reduces the number of days a lender may disburse funds in advance to an escrow agent for disbursement from 21 days to 10 days.	7/1/2006 – Loans funded to escrow agents on or after 7/1/2006	Lenders and Guaranty Agencies	Disbursing agents will need to revisit their systems and/or procedures to monitor the number of days that funds are held in an escrow account.
Escrow Agents - Interest Subsidy	428(a)(3)(A)(v)	Extends restriction on interest subsidy to include disbursements made through an escrow agent. A lender cannot bill for interest benefits on loans disbursed through an escrow agent more than three days before the first disbursement date.	7/1/2006 - Loan proceeds paid by a lender to an escrow agent on or after 7/1/06	Lenders and Guaranty Agencies	Lenders will need to revisit their system programming for billing interest benefits and modify it if necessary.

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Federal Default Fees	428(b)(1)(H)	For loans guaranteed on or after July 1, 2006, a federal default fee equal to 1 percent of principal shall be deducted proportionately from each disbursement prior to disbursing to the borrower or shall be paid using non-Federal sources.	7/1/06 - Loans guaranteed on or after 7/1/06	Lenders and Guaranty Agencies	Guarantors and lenders will need to complete programming on their systems to reflect that the fee is being charged and how it is being paid. Some guarantors and/or their lender partners are subsidizing the fee on behalf of the borrower. If the fee is not being subsidized it will be charged to the borrower.
Forbearance	428 (c)(3)	Deletes the requirement that a borrower's request for any mandatory forbearance be "in writing."	7/1/2006 – Forbearances put on accounts on or after 7/1/2006	Lenders and Guaranty Agencies	Lenders will need to revisit their procedures and modify them if necessary.
Interest Repayment from Lenders	438(b)(2)(C)(v)	Lender must repay to the Secretary excess interest when the interest rate on the loan exceeds the special allowance support level for the loan for a given quarter.	4/1/2006 – Loans first disbursed on or after 4/1/2006	Lenders and Guaranty Agencies	Lenders will need to modify their systems to identify these scenarios and return funds to the Secretary as necessary.
Lenders Insurance Percentages - Reduction of insurance	428(b)(1)(G)	Reduces insurance on defaulted loans from 98 percent to 97 percent. Ineligible borrower (exempt) claims as well as Lender of Last Resort (LLR) claims will continue to be insured at 100%.	7/1/2006 –first disbursement is made on or after July 1, 2006.	Lenders and Guaranty Agencies	Guarantors will need to program their systems to pay claims at the correct rates.
Exceptional Performer – Insurance	428(b)(1)	Decreases the insurance paid by the guarantor to the eligible lender or servicer designated as exceptional performer from 100% to 99%.	7/1/2006 - Claims received on or after 7/1/06.	Lenders and Guaranty Agencies	Guarantors will need to program their systems to pay claims at the correct rates.

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Origination Fees	438(c)(2)(B)	Reduces Stafford (subsidized and unsubsidized) origination fees over time. <ul style="list-style-type: none"> Loans with a first disbursement made on or after 7/1/2006 will have a fee of 2%; Loans with a first disbursement made on or after 7/1/2007 will have a fee of 1.5%; Loans with a first disbursement made on or after 7/1/2008 will have a fee of 1%; Loans with a first disbursement made on or after 7/1/2009 will have a fee of 0.5%; and Loans with a first disbursement made on or after 7/1/2010 will have a fee of 0%. 	7/1/2006 – Loans first disbursed on or after 7/1/2006	Lenders and Guaranty Agencies	Systems will need to be programmed to reflect the correct origination fee rates. Loan disbursements made prior to July 1, cancelled, and reissued after July 1 will have a 3% origination fee rate. Loan disbursements scheduled for disbursement prior to July 1, cancelled, and reinstated after July 1 for disbursement will have a 2% origination fee rate.
Reinsurance Claims from Guaranty Agencies	428(c)(1)	Guaranty agencies must file for reinsurance from the Secretary within 30 days of claim payment. Current timeframe is 45 days.	7/1/06 - Reinsurance requests filed on or after 7/1/2006	Lenders and Guaranty Agencies	Guaranty agencies will need to modify their systems to file for reinsurance within the new time frame of 30 days.
Special Allowance (applicable to tax exempt funds used to make or purchase loans)	438(b)(2)(B)(iv) and (v)	Makes permanent the temporary provision of the Taxpayer-Teacher Protection Act of 2004 which eliminated the 9.5% minimum yield on loans made or purchased with pre-October 1, 1993 tax-exempt funding when such tax-exempt funding is refunded on or after Sept. 30, 2004	2/8/2006 - Date of Enactment	Lenders and Guaranty Agencies	Lenders will need to program their systems to reflect the accurate billing information for special allowances.